

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the
Public Lighting Department
July 2005 – September 2007**



City of Detroit
OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE: (313) 224-3101
FAX: (313) 224-4091
WWW.CI.DETROIT.MI.US

LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: July 23, 2008

TO: Honorable City Council

FROM: Loren E. Monroe, CPA *Loren E. Monroe*
Auditor General

RE: Audit of the Public Lighting Department

C: Mayor Kwame M. Kilpatrick
Charles Beckham, Director, Public Lighting Department
Norman L. White, Chief Financial Officer
Terry King, Director, General Services Department

Attached for your review is our report on the audit of the Public Lighting Department.

This report contains our audit purpose, scope, objectives, methodology, and conclusions; background; status of prior audit findings; audit findings and recommendations; and responses from the Public Lighting Department and the Finance Department. The General Services Department did not submit responses.

This report contains recommendations to strengthen the Public Lighting Department's internal control structure over its financial transactions. While the recommendations are not intended to be all-inclusive, the correction of all or any number of conditions as recommended would strengthen the controls in effect. The responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Public Lighting Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 4-205 of the City Charter, which states in part:

Recommendations that are not put into effect by the agency shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action with respect to the recommendations.

We appreciate the cooperation and assistance that we received from the employees of the Public Lighting Department.

Copies of all of the Auditor General's reports can be found on our website at www.ci.detroit.mi.us/legislative/charterappointments/auditorgeneral.

**Audit of the Public Lighting Department
July 2005 - September 2007**

CONTENTS

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS	1
BACKGROUND	3
STATUS OF PRIOR AUDIT FINDINGS	4
AUDIT FINDINGS AND RECOMMENDATIONS	
1. Failure to Adhere to the City's Competitive Bidding Procedures	5
2. Inadequate Controls Over Payroll	6
3. Non-compliance with the Finance Department's Year-end Closing Procedures	7
OTHER FINDINGS RELATED TO THE FINANCE DEPARTMENT	
1. Inadequate Controls Over Imprest Cash	8
2. Inadequate Controls Over Cash Receipts	10
3. Inadequate Oversight of Accounts Receivable	11
4. Inadequate Oversight of Refundable Deposits	12
5. Failure to Adequately Control Capital Assets	13
OTHER FINDINGS RELATED TO THE GENERAL SERVICES DEPARTMENT	
1. Failure to Effectively Monitor Inventory	14
2. Inadequate Maintenance of Public Lighting Department Property	17
3. Inventory Security Weakness	19
4. Failure to Adequately Control Capital Assets	21
5. Failure to Provide a Formal Procedures Manual	22
AGENCY RESPONSES	
Public Lighting Department	ATTACHMENT A
Finance Department	ATTACHMENT B

AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY, AND CONCLUSIONS

Audit Purpose

The audit of the Public Lighting Department (PLD) was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit the financial transactions of all city agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

Audit Scope

The OAG performed an assessment of PLD's internal control procedures for transactions of cash receipts, revenue, accounts receivable, payroll, disbursements, inventory, capital assets, and imprest cash for the period from July 2005 through September 2007, and the status of the prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

Audit Objectives

The objectives of the audit were:

- To assess PLD's internal controls related to financial transactions;
- To determine PLD's compliance with Finance Directives, policies, plans, procedures, laws and regulations; and
- To conduct a follow-up review of the audit findings from the prior audit report.

Audit Methodology

To accomplish the audit objectives, our audit work included:

- Review of prior audit reports, Finance Directives, City ordinances, State laws, and City policies and procedures;
- Interviews with appropriate management and personnel to gain an understanding of the Department's internal control structure;
- Evaluation of the Public Lighting Department's internal controls over its major financial systems;
- Examination of sample transactions that we considered satisfactory to achieve our objectives; and
- Determination of the status of the findings cited in the prior audit report.

Conclusions

As a result of our audit, we concluded:

- There are control weaknesses in PLD's imprest cash, inventory, cash receipts, accounts receivable, and capital assets processes and year-end closing procedures;
- PLD, Finance, and GSD failed to fully comply with the Finance Directives, policies, plans, procedures, laws and regulations.
- Five of the six findings contained in the prior audit report are repeated in this report.

BACKGROUND

The Public Lighting Department (PLD) supplies electrical power to the City of Detroit's street lighting system and public buildings. The municipal street lighting system has grown from fewer than 1,500 lamps in the year 1895 to 87,500 lamps as of July 1, 2007. With a citywide distribution system, the Department now serves over 890 public buildings.

PLD operates from three main locations: the Grinnell Construction and Maintenance Yard, the Mistersky Power Plant, and the Witkowski Operations Center. In addition to these sites, the Department owns and operates 31 substations throughout the City, and the Herman Keifer Heating Plant. Electrical power is furnished to over 1,800 public and private customers.

PLD is responsible for maintaining the City's traffic signal system, along with inspecting and regulating the use of utility poles in the city. As of July 1, 2007, there were 1,000 traffic signal installations on the system. In addition, PLD assists with support for the Police and Fire Communications network.

In July 2006, the General Services Department (GSD) acquired the staff, funding and responsibilities of maintaining PLD facilities (Building Maintenance), securing PLD facilities (Security), monitoring the inventory (Stores Activities) and managing PLD's fleet (Vehicle Repair and Replacement).

Finance Department staff at PLD are responsible for all financial transactions for PLD.

PLD is a general fund agency. The following table shows the budgeted appropriations, revenues and number of staff for the Department for the 2005-2006 and 2006-2007 fiscal years.

	Fiscal Year Ended June 30	
	2006	2007
Budgeted Appropriations	\$70,287,350	\$76,368,819
Budgeted Revenues	<u>53,738,116</u>	<u>64,831,116</u>
Net Tax Cost	<u>\$16,549,234</u>	<u>\$11,537,703</u>
Number of Staff	244	227

The Director of the Public Lighting Department for the audit period was Mr. James Coon. The current Director of the Department is Mr. Charles Beckham, who was appointed in December 2007.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Public Lighting Department dated February 2001, contained the following findings and noncompliance issues:

1. Failing to Adhere to Purchasing Approval Policies and Procedures.
This finding has not been resolved, and is discussed in finding 1 on page 5 of this report.
2. Inadequate or No Inventory Records.
This finding has not been resolved, and is discussed in General Service Department (GSD) finding 1 on page 14 of this report.
3. No Inventory Management System.
This finding has not been resolved, and is discussed in GSD finding 1 on page 14 of this report.
4. Improper Use of Imprest Cash for Emergency Purchases.
This finding has been resolved.
5. No Separation of Duties.
This finding has not been resolved, and is discussed in Finance Department finding 1 on page 8 of this report.
6. Lack of Documented Operating Procedures.
This finding has not been resolved, and is discussed in GSD finding 5 on page 22 of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Failure to Adhere to the City's Competitive Bidding Procedures

Public Lighting Department (PLD) entered into a \$2 million contract with an engineering design vendor in November 1993. In June 2007, City Council approved a fourth contract amendment for \$750,000. None of the four amendments were opened to competitive bidding. The fourth amendment brought the total contract amount to \$7.1 million.

In 2003, the Office of the Auditor General recommended that City Council not approve the third amendment to the contract, because the services provided by the contractor had not been open to competitive bid. City Council approved the amendment, which brought the total of the contract to \$6.4 million. At that time, PLD stated that once the third amendment expired, the requested services would be opened to public bid. The third amendment expired in November 2005.

Section 18-5-2 of the City Code stipulates that a competitive bid is required for purchases that entail major expenditures.

Failure to adhere to the City's competitive bidding procedures increases the risk that the City may not have obtained the maximum services for the optimum price.

According to a representative of PLD, they were unaware that the contract should not have been amended a fourth time. A representative also stated that the fourth amended change on the contract would be the last one.

Recommendation

We recommend PLD abide by the City's competitive bidding procedures.

2. Inadequate Controls Over Payroll

The following weaknesses are present in PLD's controls over payroll:

- Unclaimed payroll checks for the Construction Division staff are kept in an unlocked file drawer at Grinnell.
- PLD staff discard the timesheets for the Administrative staff at the end of the fiscal year.

A good system of control over PLD's payroll process includes ensuring that unclaimed payroll checks are protected from theft or loss. Finance Directive 99 requires City Departments to retain records until an audit is conducted.

Failure to properly store unclaimed payroll checks increases the risk that theft or loss can occur. Failure to retain financial records until appropriate reviews and audits have been conducted increases the risk that misappropriation or errors will not be easily discovered and corrected.

The imprest cash custodian stated that the office door is locked at night; however, the cabinet drawer, in which the checks are kept, will not lock. The administrative staff representative of PLD stated that the only other person who has a key to the office is the janitor.

The administrative staff representative of PLD stated that at the end of every fiscal year, she would "toss the prior year's timesheets out", because she was unaware the timesheets needed to be retained.

Recommendations

We recommend the following:

- Store unclaimed payroll checks in a secure location to prevent loss or theft.
- Comply with Finance Directive 99 and retain documents until an audit is conducted.

3. Non-compliance with the Finance Department's Year-end Closing Procedures

PLD did not submit all of the year-end closing exhibits by the scheduled due dates for fiscal years 2005-2006 and 2006-2007. Four of the twenty-one year-end exhibits for fiscal year 2005-2006, and seven of the twenty of the year-end exhibits for fiscal year 2006-2007, were not submitted by the scheduled due dates.

The Finance Department's year-end closing procedures require each City Department to complete all of the year-end closing exhibits and submit them to the Finance Department by the scheduled due dates.

Failure to submit all of the year-end closing exhibits as required increases the risk that the Finance Department will not complete the City's Comprehensive Annual Financial Report (CAFR) by its scheduled due date or information presented in the CAFR may be incorrect.

According to a Finance representative, PLD inventory exhibits and the exhibits completed by the Engineering, Construction and Maintenance Division of PLD are not completed on a timely basis. In addition, a representative stated that the physical count for fiscal year 2007 was not done right the first time, so they had to do it over again which caused the report to be late.

Recommendation

We recommend PLD comply with the Finance Department's year-end closing schedules and due dates.

OTHER FINDINGS RELATED TO THE FINANCE DEPARTMENT

1. Inadequate Controls Over Imprest Cash

The authorized amount of the imprest cash account for the Public Lighting Department (PLD) is \$7,500. The imprest cash is kept in four separate locations, each having a custodian.

- Grinnell Accounting Administration, \$4,700 Checking Account
- Grinnell Stores, \$1,000 Petty Cash
- Mistersky Power Plant, \$1,400 Checking Account, and \$100 Petty Cash
- Witkowski, \$300 Petty Cash

During the review of PLD's imprest cash, the following conditions existed:

- The custodian list and the authorized imprest cash amounts were not updated for Mistersky Power Plant (Mistersky), Grinnell Stores (Grinnell), and Witkowski Power Center (Witkowski).
- Independent audits of the imprest cash fund were not conducted at any of the imprest cash locations.
- A number of checks from the imprest cash checking account at Mistersky were made out to cash to replenish the petty cash fund.
- Receipts for reimbursement were not signed or dated by the purchaser at the Mistersky, Grinnell Stores and Witkowski Power Center.
- Requests for reimbursements were not submitted to the Accounts Payable Division of the Finance Department within 30 days from the end of the month in which the purchase was made.
- The custodians at Grinnell Accounting Administration and Mistersky write the imprest cash checks, receive and open the bank statements, and reconcile the imprest cash accounts.
- Imprest Cash checking account reconciliations were not retained for fiscal years 2005-2006 and 2006-2007 at Mistersky.
- Occasionally the imprest cash checkbook at Mistersky is left unsecured on the custodian's desk.

The Imprest Cash Manual states the following:

- If the imprest cash fund is comprised of a checking account and a cash supply, the custodian of the imprest cash fund must keep a written statement signed by the custodian and approved by the supervisor indicating the cash portion of the imprest cash fund retained in cash.
- At a minimum, internal audits must be conducted once every three months.

- Independent reconciliation of the imprest bank account should be performed monthly by persons other than the custodian or authorized signatories of the imprest fund.
- Monthly bank statements and returned checks must be sent to a person other than an authorized signatory or a custodian of the imprest cash fund.
- Reconciliation records should be retained until the Auditor General has performed an audit for that particular audit period.
- Imprest cash checks issued to reimburse the cash portion of the imprest cash fund should be made payable to the imprest cash custodian.
- Imprest cash funds must be kept under lock.
- Documents supporting imprest cash purchases must be signed and dated by the employee making the purchase.

Failure to maintain adequate controls over imprest cash increases the risk that fraud, theft, or misappropriation may occur. In addition, lack of independent reviews of the imprest cash may lead to misuse of funds by employees.

During our inquiries on the imprest cash, we noted that only one of the four-imprest cash custodians had an Imprest Cash Procedures Manual. According to a Finance representative, staff shortages and employee transfers were also cited as primary causes for the weaknesses in the imprest cash controls.

Recommendations

We recommend the Finance Department implement the following:

- Provide copies of the Imprest Cash Manual to all of the imprest cash custodians along with the individuals authorized to sign the checks.
- Adhere to the guidelines set forth in the Imprest Cash Procedures Manual.
- Update all Finance Department records as it relates to the assigned imprest cash custodians as well as the authorized amounts.
- Segregate the imprest cash duties.
- Retain records of all reconciliations until the Auditor General has performed an audit of imprest cash.
- Close out the imprest cash checking account at the Mistersky location, since there is very little activity and limited staff to perform the independent reconciliations on a consistent basis.

2. Inadequate Controls Over Cash Receipts

PLD receives cash receipts related to street lighting for residential or commercial property, which may include removal and installation of poles, electrical transfer and/or upgrades. We found that out of nineteen cash receipts selected for review, five had not been deposited with the Finance Department Treasury Division (Treasury Division) within 48 hours of collection.

Finance Directive 18 stipulates that “all cash, checks, money orders, or cash equivalent received should be deposited in the bank and recorded in the City’s financial system within 48 hours of receipt”.

Failure to deposit funds timely can increase the exposure of the funds to loss or theft. Cash receipts are more susceptible to embezzlement when allowed to accumulate more than the 48 hours.

According to the Finance representative, staff shortages were the primary cause for depositing cash late with the Treasury Division.

Recommendation

We recommend the Finance Department abide by Finance Directive 18 and ensure that all cash is deposited within 48 hours of receipt.

3. Inadequate Oversight of Accounts Receivable

Oversight of accounts receivable is inadequate. As of June 30, 2007, the Department's accounts receivable balance was \$8.9 million. The following conditions exist:

- Invoices are not being submitted to the Finance Department's Revenue Collections Division in a timely manner.
- Customer ledger balances are not balanced at least once a month with control accounts and are not periodically aged and reviewed by an appropriate official and followed up in a timely manner.
- Customer bills do not show beginning balances, activity and current balance.

Good accounting practices require the Department to have an effective billing system in place. Adequate controls over accounts receivable require that all records be reconciled and brought up-to-date especially as it relates to changes in the customer's account. Section 18-6-3 of the City Code stipulates that departments are required to use diligent efforts to collect for a period not to exceed thirty days after the issuance of bills. After thirty days, the accounts shall become the responsibility of the City Treasurer's Office. Generally accepted accounting principles require documents and records to be sufficiently specific and of a nature to provide reasonable assurance that transactions, such as billing customers, are properly recorded, accounted for, and controlled.

Inadequate oversight of PLD's account receivables increases the risk that revenue owed to the Department will not be collected. The longer receivables remain outstanding, the less likely the revenue will be collected. In addition, the risk that PLD's financial reports are misstated is increased, because the Department does not regularly review its aged accounts receivable reports and make adjustments.

A representative of the Finance Department stated that one cause for PLD's outstanding delinquencies is due to the Department's lack of documentation to support the outstanding amounts due from the customers. Charging job cost to the wrong work order, and using paper and pencil to record meter readings for customer billings, were also cited as causes for the control weakness.

Recommendations

We recommend the Finance Department:

- Submit delinquent bills to revenue collections within thirty days from the date of issuance.
- Implement an effective billing system.
- Review the aged receivable reports on a regular basis, and follow established City procedures to collect, adjust, and refer for collection, or write-off, all delinquent accounts receivable.

4. Inadequate Oversight of Refundable Deposits

Refundable deposits are obtained from private customers that use services provided by PLD. As of June 30, 2007, the refundable deposit balance for PLD was \$2.7 million. From reviewing refundable deposits, we found the following:

- Some of the amounts included in the refundable deposit balance are for projects completed in the 1980's.
- PLD is unable to locate work orders, contracts or any other documentation to determine whether a refund is due to the private customer.
- The Public Lighting Accounting System (PLAS), which is the accounting system used to record deposits, does not operate effectively.

Refundable deposits are a liability of PLD because deposits are returned to the customer once the work orders are completed and the customer makes full payment.

Failure to properly monitor and perform a quarterly analysis of the refundable deposits could lead to a misstatement of the City's financial reports. The City may be accounting for unsubstantiated liabilities.

Finance representatives stated the following reasons prevented proper monitoring of the refundable deposits:

- A contractor did not complete upgrades or modifications to PLAS; therefore, the Department cannot print the reports needed for billing or refunds.
- Paperwork related to those projects cannot be found, so there is no way to know if those customers are due a refund.
- In some cases, job costs were charged to the wrong work order. This is due to the number of new employees who are unfamiliar with PLD's work order system.

Recommendations

We recommend the Finance Department:

- Reconcile the work orders against the refundable deposit schedule and resolve outdated work orders.
- Update the refundable deposit schedule to accurately reflect deposits held.
- Monitor work orders to ensure job costs are charged appropriately.
- Implement a process to effectively monitor refunds.

5. Failure to Adequately Control Capital Assets

Based on audit tests performed, nine of the sixteen assets (non-vehicle) selected for review, were not listed in the City's Capital Assets system (CAS).

The Capital Asset Policy requires that all Departments conduct an annual physical inventory of its capital assets. The physical inventory should be reconciled to the CAS Asset Inventory Report. All discrepancies should be reconciled, resolved, documented and entered into the CAS system.

Non-compliance with the Capital Asset Policy reduces the effectiveness of the policy and the controls it is designed to impose. Non-compliance with the policy impairs the City's ability to properly record all assets in the financial records and safeguard assets to prevent losses.

The Finance representative stated the following causes for the conditions listed above:

- They never received paperwork concerning acquisitions.
- Lack of training.

Recommendations

We recommend the Department abide by the Capital Asset Policy Guide and Procedure Manual, which requires:

- A physical count of all fixed assets and documentation of the count;
- Reconciliation of the physical count to the CAS records;
- Recording all acquisitions, transfers and disposals in the CAS system; and
- Ensuring that all personnel responsible for Capital Assets have the necessary training to perform their job and are aware of their role within the Department.

OTHER FINDINGS RELATED TO THE GENERAL SERVICES DEPARTMENT

1. Failure to Effectively Monitor Inventory

For fiscal year 2006-2007, the Public Lighting Department (PLD) reported \$7.8 million in material and supplies inventory. In July 2006, management of PLD's inventory was transferred to the General Services Department (GSD). The following weaknesses in PLD's inventory controls exist:

- **Mistersky Power Plant**
 - No inventory records are maintained.
 - Receipt and distribution of inventory are routinely performed without being documented.
 - There is unlimited access to the Mistersky storeroom.
 - Keys to the storeroom are kept in an unlocked desk drawer.
- **Grinnell (Pole Yard)**
 - No log or other monitoring tool is used to track the number and type of poles used by PLD staff.
 - Unlimited access to the Pole Yard.
- **Grinnell (Stores)**
 - Inventory records from the period July 2005 through December 2005 were missing.
 - Inventory reorder points had either not been established or were outdated.
 - The Citi-Trak reports, used for manual inventory counts, are not always accurate. Adjustments are regularly performed on the inventory numbers.
 - The DataStream, which is the current database system used to store inventory information obtained from the Citi-Trak report, has inaccurate information stored within it.
 - Supervisors do not approve the adjustments that are made during the manual inventory counts.

Good accounting practices require proper management of inventory in the most efficient way. Effective monitoring controls include the establishment of inventory reorder points. An inventory management system must be in place in order for the Department's daily operations to run efficiently. Moreover, essential to the control environment are procedures that include the establishment of proper access and record retention guidelines.

Ineffective monitoring of PLD's inventory increases the risk that the following inefficiencies may occur:

- Unreliable inventory records.
- Stock outages, high volumes of emergency purchases, and an over reliance on vendors to fulfill urgent stock requests.
- Theft and other abuses of inventory items.

According to GSD and PLD staff weaknesses in PLD's inventory controls are due to the following:

- Mistersky Power Plant
 - The Mistersky Power Plant has not had a storekeeper since 2005.
 - The keys to the storeroom are kept in an unlocked drawer so when the assigned person is away from the desk, others will have access to the keys.
- Grinnell (Pole Yard)
 - Staff at PLD will take items out of the Pole Yard without completing a requisition form.
 - A lack of staff is the primary cause for ineffective monitoring of the inventory.
- Grinnell (Stores)
 - An outside contractor threw away a lot of PLD inventory information when they were updating data in the computer system.
 - One staff person is responsible for performing manual audits for eight warehouses.
- The GSD representative for PLD stated that it is difficult to monitor the inventory because they have no access to the Data Stream computer system. They rely on a bi-weekly physical count of the inventory, which may not occur due to staffing issues.

Recommendations

We recommend the GSD complete the following:

- Gain access and utilize the Data Stream system.
- Set up reorder points for the inventory in the Data Stream system, if possible.
- Consolidate the inventory at various locations in order to monitor it on a consistent basis due to the limited number of GSD staff assigned to PLD.
- Implement good business practices in order to track the inventory in the most efficient manner possible.
- Perform inventory counts at regular intervals to ensure Data Stream remains accurate.

- Emphasize to staff the importance of maintaining accurate inventory records as a key factor in the successful performance of the Department.
- If cost effective, consider hiring an outside inventory management company to review the current inventory system and make recommendations on how to improve it.
- Allow only authorized personnel to have access to inventory at the various locations.
- Ensure that employees are utilizing the required forms to remove items from stock.
- Ensure that employees are maintaining inventory records.
- Require management to approve all documents for any adjustments made on the inventory.

2. Inadequate Maintenance of PLD Property:

The inventory storeroom at Mistersky and the Pole Yard at Grinnell are inadequately maintained.

- The photograph below shows stagnant water on the floor of the storeroom, and extensive water damage to the storeroom shelving.

Mistersky Power Plant Storeroom



- Fencing surrounding the Grinnell Pole Yard is falling apart; making the yard easily accessible to unauthorized entry.

Grinnell Pole Yard



Good business practices require maintenance of all facilities on a regular basis.

Failure to maintain the storeroom increases the risk that inventory in the storeroom will be damaged. The Department will incur additional costs if replacement of damaged inventory is necessary. In addition, poorly maintained facilities increase the risk of employee illness or accidental injury. The lack of repairs to the Pole Yard fencing increases the risk of theft.

Neither PLD nor GSD knew how long the water had been in the storeroom. GSD stated that the fencing was already falling apart when they assumed the security responsibility for PLD in July 2006.

Recommendations

We recommend GSD:

- Repair existing problems as they relate to the water damage to the storeroom and the damaged fencing.
- Maintain all property on a regular basis.

3. Inventory Security Weakness:

The Department lacks sufficient security at various locations. We found the following conditions:

Grinnell (Pole Yard)

- No surveillance of the Pole Yard.
- Fencing surrounding the Grinnell Pole Yard is falling apart; making the yard easily accessible to unauthorized entry.

Grinnell (Main)

- The photograph below shows that PLD transformers are openly exposed to theft. Police reports indicate that five attempted thefts and five actual thefts of copper cable and copper wiring from the transformers occurred during the audit period.



- Improperly installed security cameras.

An effective internal control environment includes securing Department assets from theft, vandalism or loss.

Leaving transformers unsecured increases the risk that theft, vandalism or unauthorized use may occur. The Department will face increased cost to replace or repair stolen or damaged equipment. In addition, theft or damage to transformers will cause significant delays in providing the electrical services to the City.

According to GSD weaknesses in PLD's security controls are due to the following:

- There is only a minimum of one guard staffed at the Grinnell location.
- Suspects are cutting through the wire fences.

- The representative from PLD stated that it is difficult to track the ins and outs at the pole yard because it is not on-site where she is located.
- GSD recommended that PLD use a double fence line in the back of the property along with a razor wire that would be at least five feet tall; instead, PLD chose to add corrugated panels by welding them to the fence line.
- The GSD representative stated that security cameras at Grinnell are not installed in the proper location because you cannot see an attempted unlawful entry onto the property.

Recommendation

We recommend that GSD improve the security at PLD's property.

4. Failure to Adequately Control Capital Assets

Based on audit tests performed, the following conditions exist:

- None of the vehicles randomly selected from the Citi-Trak Report, which is used by the GSD Fleet Manager to conduct the annual physical count of vehicles, were listed in CAS system as of June 30, 2007.

The Capital Asset Policy requires that all Departments conduct an annual physical inventory of its capital assets. The physical inventory should be reconciled to the CAS Asset Inventory Report. All discrepancies should be reconciled, resolved, documented and entered into the CAS system.

Non-compliance with the Capital Asset Policy reduces the effectiveness of the policy and the controls it is designed to impose. Non-compliance with the policy impairs the City's ability to properly record all assets in the financial records and safeguard assets to prevent losses.

A GSD representative provided the following causes for the conditions listed above:

- The Fleet Manager did not know why the vehicles tagged on the Citi-Trak report were not on the Capital Asset Report.
- The Fleet Manager stated that Maximus, a software created to track the entire fleet, is "web-based and the system would go down quite a bit."
- The Fleet Manager stated that the Citi-Trak report is not accurate because it is not being updated on a regular basis.

Recommendations

We recommend the Department abide by the Capital Asset Policy Guide and Procedure Manual, which requires:

- A physical count of all fixed assets and documentation of the count;
- Reconciliation of the physical count to the CAS records;
- Recording all acquisitions, transfers and disposals in the CAS system; and
- Ensuring that all personnel responsible for Capital Assets have the necessary training to perform their job and are aware of their role within the Department.

5. Failure to Provide a Formal Procedures Manual

The following conditions exist:

- The Storekeeper at Grinnell did not have an operating manual specifying the daily tasks.
- There are no documented procedures for handling obsolete, unusable and overstocked items.

Good business practices require written procedures.

It can be detrimental to any Department to operate without the use of a procedures manual. If there is no guide for the employees to follow, the risk is greater that operations will not be conducted consistently and in accordance with management's direction. Operations will not be performed in the most cost efficient manner. In addition, the quality of service to Department customers may be adversely affected.

The GSD representative stated that they are currently working on finalizing PLD Stores Operating Procedure Manual.

Recommendation

We recommend that management develop written procedures for key operations and communicate them to all applicable staff.



CITY OF DETROIT
PUBLIC LIGHTING DEPARTMENT

9449 GRINNELL
DETROIT, MICHIGAN 48213-1176
PHONE 313•267•7256
FAX 313•267•6057
WWW.CI.DETROIT.MI.US

Attachment A

July 2, 2008

Loren E. Monroe, CPA
Auditor General
2 Woodward Ave. Ste. 208
Detroit, Michigan 48226

**RE: Department Response to "Draft" Operational Audit Findings
Public Lighting Department (PLD) July 2005 – September 2007**

Attached for your information, review and files is the department's response to audit findings reported for the period indicated above related to PLD operational activities. In addition, we have included responses from Finance Accounting Section staff assigned to PLD.

If there are any related questions please feel free to contact my office at 267-7202 or Valeria Wiggins, General Manager at 267-7257.

Attachments (1)

Sincerely,



Charles Beckham, Director
Public Lighting Department

CB/wpc

“Draft Audit Findings and Recommendations”

1. Failure to Adhere to the City’s Competitive Bidding Procedures

Recommendation

We recommend PLD abide by the City’s competitive bidding procedures.

Response

Prior to the audit engagement, and subsequent to the last change order related to the contract with Consulting Engineering Associates (CEA), the department acknowledged the need to competitively bid this service. The last change order processed in June 2007 was for an urgent project and was the last one. As-needed engineering services will be competitively bid in the future.

2. Inadequate Controls Over Payroll

Recommendation

We recommend that PLD store unclaimed payroll checks in a secure location to prevent loss or theft, comply with Finance Directive 99 and retain documents until an audit is conducted.

Response

Unclaimed payroll checks are stored in a locked location and/or locked safe at PLD facilities. In addition, unclaimed payroll checks are mailed Friday afternoon to ensure prompt removal and reduction of possible loss or theft.

On January 3, 2008 the department issued the most recent copy of the “Records Management Handbook” distributed by the Michigan Municipal League and Finance Directive 99 to all Division Heads, GSD Stores, Accounting and HR with a memo explaining the requirement to retain various financial and operation data, and to use this document as a guideline for record retainage throughout the department, and audit requirements as well. A copy was submitted to Ms. Nicole Carson (OAG).

3. Non-Compliance with the Finance Department's Year-end Closing Procedures

Recommendation

We recommend PLD comply with the Finance Department's year-end closing schedules.

Response

PLD Accounting submits year-end close schedules in a timely manner, however we were informed that the schedules (exhibits) are either not logged in timely upon receipt when delivered to Finance to confirm receipt, or properly. Finance has been informed of this problem.

Stores (GSD) – Inventory prices had not been entered into the new system (Datastream), however, this data is being populated in conjunction with current physical inventory activities (Finance and GSD).

Other Findings Related to the Finance Department (Accounting)

- Inadequate Controls Over Imprest Cash

Recommendations

Provide copies of the Imprest Cash Manual to all of the imprest cash custodians along with the individuals authorized to sign the checks.

Adhere to the guidelines set forth in the Imprest Cash Procedure Manual.

Update all Finance Department records as it relates to the assigned imprest cash custodians as well as the authorized amounts.

Segregate the imprest cash duties.

Retain records of all reconciliations until the Auditor General has performed an audit of imprest cash.

Close out the imprest cash checking account at the Mistersky location, since there is very little activity and limited staff to perform the independent reconciliations on a consistent basis.

Response (Accounting Section)

Copy of the Imprest Cash Manual has been distributed to all imprest cash custodians and those authorized to sign checks. Guidelines as set forth in the Imprest Cash Procedures Manual will be adhered to.

The custodian lists have been updated, however the imprest cash amounts have not changed.

Independent audits of the imprest/petty cash funds are conducted monthly by Accounting for each facility.

When the cash box is low at Mistersky, they write a check to replenish it. In addition, the imprest cash checkbook at Mistersky is now kept in a secure location.

All receipts are now being signed upon submittal for reimbursement at all PLD facilities, and are being submitted to Accounts Payable within 30 days after purchase was made.

There is now segregation of duties in place so that no one individual receives, opens or reconciles bank statements or imprest cash accounts, and reconciliation data is now being retained.

Principal Clerk at Mistersky during this period was out on extended medical leaves and left a lot of activities incomplete, or unprocessed. She has since retired, and been replaced and issues related to imprest cash at Mistersky have been resolved. We do not recommend closing the account at this time because this is a 24/7 operation.

- Inadequate Controls Over Cash Receipts

Recommendation

We recommend the Finance Department – Accounting Section abide by the Finance Directive 18 and ensure that all cash is deposited within 48 hours of receipt.

Response

Checks are hand-delivered to Treasury as soon as possible, and payments to Revenue and Collections. The Accounting Section adheres to Finance Directive 18.

- Inadequate Oversight of Account Receivables

Recommendations

We recommend the Finance Department submit delinquent bills to revenue collections within thirty days from the date of issuance.

Implement an effective billing system.

Review the aged receivable reports on a regular basis, and follow established City procedures to collect, adjust, and refer for collection or write-off all delinquent accounts receivable.

Response

PLD lost the Principal Accountant, and Billing Clerk responsible for PLD billing activities. In addition, one of two Senior Electrical Meter Readers has been on extended medical leave. The Accounting Manager has had another employee train however obtaining meter read data timely is still an issue to be addressed.

The department is implementing an Electric Utility Billing and Financial Reporting System (Civic Systems – Caselle Software), to replace Quattro Pro and Excel spreadsheets currently in use. Anticipated implementation completion is December 2008.

The department has no control over current system configurations used by Revenue and Collections, and this matter will have to be addressed in that Division.

The Accounting section and Revenue and Collections are working to review and report aged receivables on a more regular basis, and also refer un-collectible balances for write-off.

- Inadequate Oversight of Refundable Deposits (Retainages)

Recommendations

Reconcile the work orders against the refundable deposit schedule and resolve outdated work orders.

Update the refundable deposit schedule to accurately reflect deposits held.

Monitor work orders to ensure job costs are charged appropriately.

Implement a process to effectively monitor refunds.

Response

The Accounting Section completed the reconciliation activity in June 2008, and will reconcile on a bi-monthly or quarterly basis to address the issues indicated above.

As indicated previously, the Public Lighting Accounting System (PLAS) is being replaced with the Civic Systems – Caselle Software Billing System and Financial Reporting modules by December 2008.

- Failure to Adequately Control Capital Assets

Recommendation

We recommend the department abide by the Capital Asset Policy Guide and Procedure Manual, which requires:

A physical count of all fixed assets and documentation of the count; reconciliation of the physical count to the CAS records; recording all acquisitions, transfers and disposals in the CAS system; and ensuring that all personnel responsible for Capital Assets have the necessary training to perform their job and are aware of their role within the department.

Response

The Accounting Section completes a Capital Asset Inventory annually, and the records are submitted to Finance FICS Accounting for input into the Capital Asset Inventory Module of DRMS. The Capital Asset Inventory for FY 2007/08 was just completed.



CITY OF DETROIT
FINANCE DEPARTMENT

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVE., SUITE 1200
DETROIT, MICHIGAN 48226
PHONE: 313-224-3491
FAX: 313-224-4466
WWW.CI.DETROIT.MI.US

Attachment B

July 10, 2008

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated findings and related recommendations in the July 2005-September 2007 audit of the Public Lighting Department, as prepared by the Office of the Auditor General.

Finding No. 1. Inadequate Controls Over Imprest Cash
Finding No. 2. Inadequate Controls Over Cash Receipts
Finding No. 3. Inadequate Oversight of Accounts Receivables
Finding No. 4. Inadequate Oversight of Refundable Deposits
Finding No. 5. Failure to Adequately Control Capital Assets

Department's Response:

The Finance Department agrees with the Auditor General's findings and recommendations, related to the five areas above. As a result, the Finance Department will work towards correcting the processes regarding inadequate controls over imprest cash and cash receipts, inadequate oversight of accounts receivables and refundable deposits and failure to adequately control capital assets.

Sincerely,

Norman L. White
Chief Financial Officer

NLW:VR:vr

Cc: Vance Russell
Charles Beckham

